



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

**Date:** 2/8/2007

**GAIN Report Number:** RP7008

## Philippines

### Grain and Feed

### Annual

### 2007

**Approved by:**

Emiko Purdy  
U.S. Embassy

**Prepared by:**

Perfecto G. Corpuz

---

**Report Highlights:**

Wheat imports in MY06/07 will contract from the previous year's level as increasing wheat prices cause a shift away from wheat imports to corn for both food and feed use. Despite adequate local supply, however, concerns over local corn quality will result in increased imports during the year. A reversal is expected in MY07/08 as wheat prices are predicted to abate. Wheat imports are expected to recover and increase from the previous year's level while corn imports are likely to decline during the period. Rice imports will likely remain high but slightly decline in MY06/07 due to good production and remain flat in MY07/08 due to adequate stocks.

---

Includes PSD Changes: Yes  
Includes Trade Matrix: No  
Annual Report  
Manila [RP1]  
[RP]

## SUMMARY

Positive economic prospects and the increasing Philippine population will translate to increased overall demand for food and feedgrains in the next two years. Despite good grain production last year, increasing global grain prices will cause shifts in grain consumption patterns as well as directions in overall Philippine agricultural policy, however. Wheat demand will contract in MY06/07 due to high prices resulting in a decline in per capita consumption of wheat-based foods. Feedwheat demand, on the other hand, will be displaced by higher feedcorn use during the year and overall wheat imports are expected to contract from the previous year's level. Milling wheat imports during the year are likely to be sourced mostly from the U.S. followed by China while imports of feedwheat are expected to be led by China and EU sources. A mild recovery in wheat demand is predicted in MY07/08 with both milling and feedwheat imports increasing slightly from the previous year's level as global wheat supplies improve and prices start to soften.

While there is ample corn supply entering MY06/07, imports will increase from the previous year's level due to concerns over local corn quality. Foodcorn consumption will displace some milling wheat demand, but its increase from the previous year's level will largely be on account of increased postharvest losses and wastage during the year. Overall corn demand will be driven by a significant increase in corn feed consumption during the year as a result of the recovery of the domestic local poultry industry. While a slight increase in corn production is projected the following year, overall corn consumption will likely remain flat as a result of a recovery in milling wheat and feedwheat demand. Corn imports in MY07/08 are likely to decline from the previous year's level as a result.

As the country's staple food, rice consumption will be increasing in the next two years with a spike in consumption in MY06/07 as a result of increased election-related spending. Like corn, despite reaching record-level production in MY06/07, considerable rice "disappearance" is likely due to extensive damage to postharvest handling infrastructure. Hence imports will still be significant during the year, although slightly lower than the previous year's level. And although production will likely decline in MY06/07 due to elimination of the GRPs rice hybrid seed subsidy, rice imports the following year are expected to remain at the MY06/07 level due to comparatively high stock levels entering the year.

## PRODUCTION

According to data from the Philippine Department of Agriculture's Bureau of Agricultural Statistics (DA-BAS), the domestic farm sector expanded 3.9 percent in 2006, up from the revised 2.3 percent growth in 2005, but lower than the 4 to 4.5 percent target for 2006. All farm subsectors last year, except poultry (which contracted 4 percent), grew from the 2005 level. Grain output registered impressive gains during the period with rice and corn output expanding 5 and 16 percent, respectively, from the 2005 level due to increased area harvested and the use of quality planting seeds. There continues to be no known wheat production in the Philippines and local grain production would have been higher had it not been for successive typhoons during the last 4 months of 2006. Despite their occurrence, corn and rice harvests in July-December 2006 surpassed the production level during the same period the previous year. To a large degree, the performance of Philippine agriculture is still weather-dependent.

Overall growth target of the farm sector this year has been set at 4-5 percent with grain production expected to extend its growth for the first half of 2007. The predicted El Niño episode this year is mild, according to the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA). As a result, corn and rice production was

raised in MY06/07 for a modest increase compared to the MY05/06 level. Quality issues and wastage losses for both grains in 2007, however, are expected.

The average price of corn for the first ten months of last year was P9.20/kg (\$0.18) or roughly 20 percent higher than the P7.66 average price during the January to October period in 2005. The BAS estimates average farmgate prices for the entire 2006 at P9.03/kg (\$0.18/kg), still higher than the 2005 average. 2006 corn prices were higher than the previous year's level as tightness in global corn supplies strengthened demand for local corn.

<b>Prices Table (Farmgate)</b>			
<b>Country</b>	Philippines		
<b>Commodity</b>	Yellow Corn		
Prices in	Pesos	per uom	Kg.
Year	2005	2006	% Change
Jan	7.67	8.84	15%
Feb	7.26	9.64	33%
Mar	7.61	9.40	24%
Apr	8.05	9.61	19%
May	8.09	9.76	21%
Jun	8.00	9.74	22%
Jul	7.87	9.32	18%
Aug	7.66	9.01	18%
Sep	7.16	8.41	17%
Oct	7.25	8.23	14%
Nov	7.61		-100%
Dec	8.17		-100%
Exchange Rate	48.93	Local Currency/US \$	
Date of Quote	1/23/2007	MM/DD/YYYY	

Source: Bureau of Agricultural Statistics

Corn production in MY07/08 will likely be higher than the previous year's level due to recovery in the local broiler industry. Increased area harvested is expected as concerns of an El Nino dryspell in 2007 will likely result in a minor shift way from rice to corn production. The continued use of good quality planting corn seeds, including hybrids and Bt corn seeds are also expected to enhance higher production during the year. An estimated 20 percent of total corn area was planted with hybrid corn last year. Areas devoted to transgenic corn, on the other hand, are estimated to reach 200,000 hectares in 2006, almost thrice the 70,000 hectares in 2005. Currently, 3 biotechnology Transformation Events (TEs) and one stacked trait corn variety have been approved for commercial production.

A few years ago, perennial quality problems of local corn forced San Miguel Corporation (SMC), the country's largest feedgrain user, to promote cassava production in Mindanao. This indicates continued strong feed demand in the long term. SMC reportedly intends to continue promoting cassava production in a million hectares working with farming cooperatives.

Despite higher paddy production in 2006, prices for the first ten-months averaged P11.01/kg (\$0.22/kg), up by P0.05 over the average price for the same period the previous year, according to the BAS. The BAS projects the average price of paddy rice for the whole 2006 will decline to P10.60/kg (\$0.21/kg), lower than the 2005 average of P10.82/kg (\$0.22/kg) taking into account the successive 2006 typhoons which negatively affected grain quality. The 2006 average price, however, will still be higher than the National Food Authority's (NFA) paddy rice-buying price of P10.50/kg (\$0.21/kg). This partly explains why the NFA can only procure 3-5 percent of overall paddy rice production.

Prices Table			
Country	Philippines		
Commodity	Rice, Paddy		
Prices in	Pesos	per uom	Kg.
Year	2005	2006	% Change
Jan	10.02	10.48	5%
Feb	10.25	10.74	5%
Mar	10.59	11.00	4%
Apr	11.21	11.27	1%
May	11.37	11.39	0%
Jun	11.63	11.55	-1%
Jul	11.72	11.53	-2%
Aug	11.68	11.25	-4%
Sep	10.93	10.70	-2%
Oct	10.22	10.22	0%
Nov	10.05		-100%
Dec	10.16		-100%
Exchange Rate	48.93	Local Currency/US \$	
Date of Quote	1/23/2007	MM/DD/YYYY	

Source: Bureau of Agricultural Statistics

Local grain prices are high due to low yields (particularly in rain-fed areas) and high production costs (as a result of high chemical and fertilizer costs). Roughly 35 percent of farm areas are rain-fed. Generally, corn and rice are grown in small parcels of land less than 2 hectares in size. Planting, harvesting and bagging are done manually. Harvested grain is sun-dried. The periods of drying and storage are usually where Aflatoxin develops. After drying, the grain is brought by animal-drawn carts or light vehicles to collection centers where delivery trucks haul them to the mills. Even before milling, considerable corn and rice "disappearance" is realized.

While the use of rice hybrid seeds has been the key in the GRP's drive for rice self-sufficiency, there have been controversies. Its comparatively higher price than conventional seeds, in addition to its higher requirement of fertilizers and chemical inputs, has slowed its adoption. Complaints of varying crop quality and performance relative to location have also been reported. Lately, criticisms about the monopoly of a lone source of hybrid seeds also surfaced. These, among others, are likely the reasons behind the DA's announcement of the removal of the GRP's subsidy for hybrid rice seeds in 2007 (refer to GAIN 6062). The removal of the rice hybrid rice seed subsidy is the basis for the downward adjustments

made to rice production in MY07/08. The hybrid rice subsidy fund, estimated at around P700 million (\$14.28 million) will be channeled to rice research, according to press reports.

Last year, the National Seed Industry Council (NSIC) approved for release the country's first biotech rice variety for commercial production. NSIC Rc142 or Tubigan 7, is the product of marker-aid selection, and is not a transgenic. The variety was developed by Dr. Leocadio S. Sebastian, Executive Director of the Philippine Rice Research Institute (PhilRice) through, a Rockefeller Foundation research grant. NSIC Rc142 is resistant to the bacterial leaf blight disease.

## CONSUMPTION

Despite the lower-than-expected agricultural output, Philippine GDP in 2006 reached 5.4 percent, up from the revised 5.0 percent GDP expansion the pervious year. The expansion was attributed to double-digit export growth and strong consumption fuelled by record-level overseas remittances last year. For 2007, GDP growth rate was upgraded to 6.1-6.7 percent from 5.7-6.5 percent due to an expected surge in investments. Official GNP growth projection for the year, on the other hand, was raised to 6.2-7.1 percent from the original target of 6.0-6.9 percent in 2007. Projected inflation rate for this year was recently pared down to 3.5-4.0 percent from 4.3-4.8 percent by the Bangko Sentral ng Pilipinas (BSP) due to lower oil prices and a strong Peso. The official GRP inflation target for 2007 is 4-5 percent. The positive adjustments in projected growth and inflation rates reflect the increased optimism by investors over the growth prospects of the country after an improvement in its fiscal situation. The country's budget deficit in 2006 reportedly shrank to P62.2 billion (\$1.26 billion) or roughly one percent of GDP, the lowest since 1998 when the gap was at P53 billion (\$1.08 billion).

The good economic prospects coupled with a growing population (currently estimated at over 88 million) will result in increased overall foodgrain consumption through 07/08, with a spike in food and feed demand in MY06/07 expected, driven by election-related (Congressional elections) spending before May 2007. Despite this, overall wheat consumption has been significantly revised downwards in MY06/07 from the previous year's level as a result of high wheat prices. Food wheat demand was pared down during the year as a shift away from milling wheat to corn and rice consumption is expected. Per capita consumption of wheat-based food products during the year is expected to decline. Corn FSI consumption will surpass the previous year's level as the diversion of poor-quality corn to other industrial uses such as flour production and/or corn oil extraction increase. A mild recovery in milling wheat demand is predicted in MY07/08, as global wheat supply improves and wheat prices soften.

Other than flour and feed milling, there are no other known uses for wheat and wheat disappearance is the lowest among the three subject grains. In the 1990's, numerous home-mixed feed producers utilizing homegrown ingredients dominated feed production in the country. As local grain supply tightened and feedgrain importation required to sustain feed production increase, some home-mixed feed producers stopped operations while the large commercial feed manufacturers began to expand. There are now roughly 700 registered feedmills in the country, the majority of which are considered commercial and account for roughly 60-65 percent of total feed output. These companies have the economic size to import feedgrains and maintain in-house animal nutritionists. Overall feed milling capacity is estimated between 185-200 million 50kg-bags of feeds although current utilization is only around 50 percent. In 2006, according to data from the Philippine Association of Feedmillers of the Philippines (PAFMI), overall feed production contracted 6 percent from the previous year's level with all feed-types (except aqua-feed) declining from

the 2005 level. A recovery in local feed production is predicted this year as a result of increased feed demand.

PHILIPPINE FEED PRODUCTION (MT)									
January-December									
CY		Hogs		Poultry		Aqua		Gamecock	TOTAL
2004		2,645,536		976,813		407,006		40,701	4,070,056
2005		3,740,298		1,901,846		633,949		63,395	6,339,488
2006		3,530,276		1,795,056		598,352		59,635	5,983,319

Source: PAFMI

Corn is the preferred energy source by feed makers and the use of imported corn and corn-substitutes (primarily feedwheat), a function of local corn price and quality. An estimated 83 percent of national corn production (net of wastage and other losses) is used for animal feed production, 16 percent for food and one percent utilized as planting seeds. For protein, soybean meal is the main ingredient used in local feed formulations although copra meal, which has lower protein content, is sometimes used when SBM is not readily available. The more expensive fishmeal is commonly used for aqua feeds while meat and bone meal in animal feeds has been stopped as a result of an import ban since 2001. The use of poultry meal and other poultry-derived feed ingredients, on the other hand, are discouraged due to fears of an Avian Influenza outbreak.

Good local corn production is reflected in the decline of corn prices starting mid-2006. Although official data is not readily available, prices reportedly started increasing in late 2006, reaching P12.50/kg (\$0.25/kg) in December, up from around P10.75 (\$0.22/kg) the previous month. This prompted the domestic broiler and hog industry associations to petition the GRP for the importation of 700,000 MT of corn duty-free late last year. While the petitioners claim that at such a price level, a shortage exists, local corn growers say otherwise.

Prices Table (Wholesale)			
Country	Philippines		
Commodity	Yellow Corn		
Prices in	Pesos	per uom	Kg.
Year	2005	2006	% Change
Jan	9.98	10.62	6%
Feb	9.17	11.36	24%
Mar	9.93	11.32	14%
Apr	9.95	11.05	11%
May	9.70	11.27	16%
Jun	9.68	11.25	16%
Jul	9.71	11.09	14%
Aug	9.04	10.84	20%
Sep	8.79	10.48	19%
Oct	8.74	10.23	17%
Nov	9.32		-100%
Dec	10.03		-100%

Exchange Rate	48.93	Local Currency/US \$
Date of Quote	1/23/2007	MM/DD/YYYY

Source: Bureau of Agricultural Statistics

Post believes there is currently is ample local corn supply and corn used extensively in feed production for most part of the first half of CY2006, the period before the 2006 typhoons. The latter's occurrence hampered postharvest handling and resulted in grain drying problems affecting the quality of harvested corn. Inter-agency GRP planners estimate average postharvest corn losses at 15 percent of total production, but this may vary depending on weather conditions. It should be noted that the remaining 85 percent of overall corn supply are still susceptible to quality deterioration and a certain portion, expected to eventually spoil in the next market year. Prices in the Table apply to corn of acceptable-quality and recently have been increasing as the supply of quality corn has been on the decline.

The corn and feedwheat consumption figures in the PSD tables for the year are premised on the approval of the importation request and as a result, feedwheat consumption was revised downwards significantly in MY06/07 from the previous year's level. Feedcorn use was raised to compensate partly for the feedwheat decline, as well as account for wastage and losses during the year. Overall feed demand will likely continue growing in MY07/08 and increased investments in rural infrastructure repair and development this year are likely to reduce postharvest inefficiencies and grain losses beyond MY07/08. Overall feedcorn demand during the year, however, will likely stay at the previous year's level as feedwheat use recovers slightly.

Consumption of rice, the main staple, was raised in MY06/07 due to the increasing population and to account for predicted shifting away from white corn and milling wheat demand to rice consumption as a result of increasing corn and wheat prices. In addition, the higher consumption number accounts for considerable rice "disappearance" during the year. Although direct grain losses due to the 2006 typhoons were minimal, damage to existing postharvest infrastructure were significant and is expected to eventually enhance wastage losses, estimated at 10 percent of total production during the year. For 2007, Post contacts have reported that the national daily milled rice requirement inclusive of losses will be 31,800 MT, up from 31,000 MT in 2006, for an annual rice consumption of 11.6 MMT. Per capita rice consumption would be around 136 kg annually although actual food consumption per capita would be closer to 120 kg/year.

There are at least a thousand rice mills in the Philippines, majority of which are old, inefficient and small in milling capacity. Being small, most mills do not have the desired economic scale. Industry contacts consider a 65 percent milling recovery rate to be high. The actual recovery rate is closer to 60 percent, according to the same contact. This, and the various postharvest inefficiencies, is why the cost of Philippine rice is high. The prices of locally milled rice traditionally double paddy rice prices.

Average milled rice price in the first ten months of last year was P23.57/kg (\$0.48/kg) slightly higher than the average price of P22.88/kg (\$0.46) for the entire 2005. Prices for the remainder of the year and through My06/07 are expected to remain stable as a result of early and significant importation.

Prices Table			
Country	Philippines		



Commodity	Rice, Milled		
	Prices in	Pesos	per uom Kg.
Year	2005	2006	% Change
Jan	21.51	23.23	8%
Feb	21.56	23.36	8%
Mar	21.83	23.48	8%
Apr	22.62	23.50	4%
May	23.14	23.59	2%
Jun	23.27	23.69	2%
Jul	23.60	23.78	1%
Aug	23.91	23.85	0%
Sep	23.62	23.71	0%
Oct	23.27	23.51	1%
Nov	23.12		-100%
Dec	23.11		-100%
Exchange Rate	48.93	Local Currency/US \$	
Date of Quote	1/23/2007	MM/DD/YYYY	

Source: Bureau of Agricultural Statistics

Although still expected to increase, food grain demand in MY07/08 will likely slow from the previous year's level as election-related spending wanes. The consumption growth will likely be driven by the slight recovery in milling wheat demand as flat growth for foodcorn consumption is expected. Rice consumption, on the other hand, while expected to continue growing, will likely approximate population growth rate.

## STOCKS

Despite reduced wheat consumption in MY06/07, ending wheat stocks declined from the previous year's level. Wheat inventory is almost entirely private sector-held in large silos owned by local flour millers who are likewise engaged in feedmilling operations. Local millers maintain and use feedwheat inventories as leverage to deter unreasonable local corn price increases. Milling and feedwheat stock levels are likely to stay at low levels due to decreased imports as a result of weak demand in MY06/07. Wheat stocks are likely to recover and increase in MY07/08 as global prices decline and demand improves.

Ending MY06/07 corn and rice stocks were raised due to good production. Official GRP data on corn and rice inventories entering 2007 is not readily available although they are expected to be much lower than estimates by Post. The higher rice stocks estimate is to provide allowance for significant undocumented imports. A portion of ending stocks of both grains eventually form part of "disappearance" the following year due to inferior storage facilities. The recent petition for duty-free corn imports in 2007 indicate that acceptable-quality corn stocks are low even though ending stock levels in MY06/07 is high. Ending corn inventory the following year is predicted to decline from the MY06/07 level due to a decline in overall corn supply coupled with increased demand.

As mentioned in GAIN 4037 and GAIN 5005, Philippine rice inventory is comprised of those stocks held by the NFA, the commercial sector, and household. Post prefers to use consumption estimates to arrive at stock levels as household inventories are variable and difficult to estimate. In general terms, rice stocks are highest beginning each January, after



the main rice crop harvest in the 4<sup>th</sup> quarter, and gradually erode through September. As a matter of policy, a 90-day national rice buffer stock entering the third quarter of each year should be maintained. Of this desired stock level, 30 days worth of rice stocks should be in the NFA's possession. Additionally, at any given time, the NFA should have a stock level good for 15 days. Similar to corn stocks, rice-ending inventory in MY07/08 is expected to decline from the previous year's level as a result of increased consumption and lower supply.

## TRADE

Mainly due to increasing wheat prices and the expected shifts in food and feed consumption demand, considerable downward revisions were made to overall wheat imports in MY06/07 from the previous year's level. Both milling and feedwheat imports are likely to contract during the period because of high prices. PAFMI data surprisingly revealed that around 28,000 MT of feedwheat originated from the U.S in 2006. These were likely misdeclared imports. Milling wheat imports in 2007 are likely to be dominated by U.S. products followed by China while imports of feedwheat is expected to be led by China and EU sources.

PHILIPPINE FEEDWHEAT IMPORTATION (MT)													
January-December													
CY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
2004	44,000	68,000	69,550	57,119		70,507		41,400	35,000	62,050	52,050	40,620	540,296
2005	31,615	31,340			47,792	136,820	70,800	47,150		63,400		164,447	593,364
2006	190,300	87,660	119,345	62,000	61,625	139,400	36,700		61,700	117,400		27,700	903,830

Source: PAFMI

Overall wheat imports the following year, however, are expected to slightly recover and increase from the MY06/07 level as global supply improves and prices abate. The U.S. is expected to maintain its dominance over wheat exports to the Philippines during the year. Wheat imports are currently levied a 3 percent MFN tariff while imports from other ASEAN countries have a 5 percent duty.

Corn imports in 2006 increased from the previous year's level due to heavy importation in the first half of the year, the period before the main local corn crop. Argentina, China and the U.S., according to PAFMI data, in that order led in exports to the Philippines during the period. Because local corn production surged, there were no corn imports for the rest of 2006.

PHILIPPINE YELLOW CORN IMPORTATION (MT)													
January-December													
CY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
2004					9,144	352							9,496
2005							57,750						57,750
2006	80,567	25,674	33,000	22,000	52,600	44,700							258,541

Source: PAFMI

The same countries in the same order are expected to dominate corn exports to the Philippines in MY06/07. Increased emphasis on ethanol production by major corn producers may result in changes in import sources during the year. Corn imports in MY07/08 are likely to decline from the MY06/07 level as feedwheat imports are predicted to recover while feed-use is projected to increase. Current tariffs on corn imports range between 35 and 50

percent. The lower rate applies to imports under the minimum access volume (MAV) or tariff rate quota.

For rice, imports in MY06/07 are expected to decline slightly from the previous year's level due to good local production and increasing world rice prices. The latter is expected to minimize the entry of undocumented or smuggled imports. Vietnam will be dominating rice exports to the country during the year despite its November 2006 announcement that only export contracts with Indonesia and Cuba would be allowed to proceed. Trade contacts say that the Philippines is excluded from the Vietnamese export ban as the country is a major and consistent importer. Recently, the Philippines bought 474,000 MT of rice from Vietnamese firms for delivery between February and April this year.

Rice imports are subject to a 50 percent duty although quantitative restrictions (QR) will remain for seven more years as India finally reportedly has agreed to withdraw its opposition to the country's WTO notification. It is unclear what concessions India demanded in exchange for its support.

## MARKETING

The FY06 P.L. 480 Title I Agreement for approximately 69,000 MT of rice valued at \$20 million was signed July 2006 by U.S. Ambassador to the Philippines Kristie Kenney and Philippine Finance Secretary Margarito Teves. Proceeds from the FY06 Title Agreement, likely to be the last Title I Agreement, are to be spent on four priority areas: post-harvest handling infrastructure, livestock development, capacity building and biotechnology. Negotiations are currently being pursued to iron out the specifications of the rice to be delivered.

A growing challenge faced by local flour millers is the increasing entry of cheap wheat flour imports from China. Estimated to have reached approximately 45,000 MT (or roughly 62,000 MT in wheat-grain terms) in 2006, up from the 30,000 MT wheat flour imports last year. As a result, displacement of locally produced wheat flour has increased (refer to RP6063). The local flour milling industry, in a letter to the Philippine Bureau of Food and Drugs, expressed its concern about the Chinese flour's non-compliance with the local food fortification law or Republic Act No. 8976 (RA 8976). RA 8976 mandates that wheat flour be fortified with vitamin A and iron at minimum levels of 3 ppm and 70 ppm, respectively. According to a PAFMI official, tests by a private laboratory show that Chinese wheat flour do not comply with the GRP standards.

Operations of Nation Granary Inc. (NGI), the country's largest grains terminal have surprisingly stopped. After only a few shipments of feedwheat and soybean meal last year, the modern port facility reportedly ceased operations last year. The 10-hectare public grains terminal, located along the coast line of Tayabas Bay in Sariaya, Quezon, has a total project cost of P3.2 billion. The facility's construction was supported by the United Coconut Planters Bank's (UCPB) P1.6-billion (\$32.65 million) loan facility with a five-year repayment period with the Philippine Export-Import Credit Agency (PhilEXIM) which provided a comprehensive guarantee for the term loan. Other financiers were the European Investment Bank (EIB) and the Philippine Bank of Communications (PBCOM), according to media reports.

## POLICY

The year 2006 underscored certain realities that directly affect the performance of Philippine agriculture. Philippine agriculture is still largely weather-dependent. Although there was good rice and corn production last year, it magnified the glaring inefficiencies and cost implications of the current state of Philippine postharvest and transport infrastructure.

Without the latter, the effect of improved farm production in increasing farm incomes is diminished. Increasing farm production is hollow if not accompanied by adequate and appropriate infrastructure. With overall global grain supply getting tighter, and prices increasing as a result, the GRP reportedly intends to emphasize and increase infrastructure spending to at least 5 percent of GDP by 2010. The figure currently is at a little over 2 percent. Due to limited resources, it is aggressively encouraging foreign investments in Philippine agriculture.

For the remainder of the Arroyo Administration or through 2010, according to Agriculture Secretary Arthur Yap, the DA aims to (1) develop two million hectares of land for agribusiness and in the process create two million jobs, and (2) raise the yields and incomes of farmers and provide consumer access to more affordable commodities. To achieve this, Yap intends to pursue aggressive public spending on seed technology and infrastructure development in 2007. Irrigation facilities involving a reported 97,000 to 98,000 hectares will be rehabilitated this year as part of a targeted 300,000 hectares of irrigated farmlands needed to achieve rice sufficiency by 2010. Parallel to irrigation repair will be efforts to develop 1.2 million hectares utilizing massive Chinese investments the next 12 to 18 months. The effects of both moves, assuming adequate funding and judicious implementation, are likely to be felt sometime in 2008, according to Yap.

Congress recently ratified the P1.126 trillion (\$22.97 billion) national budget for 2007, which allows more funds to be made available for services in education, health and infrastructure. The DA's budget was likewise raised to P19.55 billion (\$398.98 million), up from the P14.44 billion (\$294.69 million) budget in 2005. The GRP has been operating on a reenacted P907.56 billion (\$18.52 billion) 2005 budget since the start of 2007 because of the failure of Congress to pass the 2007 appropriation due to a controversial P4.7 billion (\$95.92 million) school-feeding program. Under said program, a student would receive a kilo of rice each day of attending school but the provisions of the program was later revised by the bicameral conference committee. The revised program will distribute food supplements consisting of milk, coco-pan de sal and vegetable-based noodles to children in public schools instead of a kilo of rice. The project will be administered by the Department of Education.

<b>PSD Table</b>									
<b>Country</b>	<b>Philippines</b>								
<b>Commodity</b>	<b>Wheat</b>					(1000 HA)	(1000 MT)	(MT/HA)	
	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
<b>Market Year Begin</b>		07/2005	07/2005		07/2006	07/2006		07/2007	07/2007
Area Harvested	0	0	0	0	0	0	0	0	0
Beginning Stocks	435	440	435	413	415	413	0	0	388
Production	0	0	0	0	0	0	0	0	0
MY Imports	2954	2775	2954	2700	2500	2250	0	0	2700
TY Imports	2954	2775	2954	2700	2500	2250	0	0	2700
TY Imp. from U.S.	1700	1750	1700	0	1500	0	0	0	0
Total Supply	3389	3215	3389	3113	2915	2663	0	0	3088
MY Exports	26	0	26	25	0	25	0	0	25
TY Exports	26	0	26	25	0	25	0	0	25
Feed Consumption	850	800	850	700	600	300	0	0	600
FSI Consumption	2100	2000	2100	2100	2000	1950	0	0	2000
Total Consumption	2950	2800	2950	2800	2600	2250	0	0	2600
Ending Stocks	413	415	413	288	315	388	0	0	463
Total Distribution	3389	3215	3389	3113	2915	2663	0	0	3088
Yield	0	0	0	0	0	0	0	0	0

<b>PSD Table</b>									
<b>Country</b>	<b>Philippines</b>								
<b>Commodity</b>	<b>Corn</b>					(1000 HA)(1000 MT)(MT/HA)			
	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
<b>Market Year Begin</b>		07/2005	07/2005		07/2006	07/2006		07/2007	07/2007
Area Harvested	2500	2500	2500	2500	2500	2637	0	0	2650
Beginning Stocks	293	293	293	693	483	693	0	0	931
Production	5900	5540	5900	5800	5540	6288	0	0	6310
MY Imports	300	250	300	50	170	700	0	0	300
TY Imports	300	250	300	50	170	700	0	0	300
TY Imp. from U.S.	61	45	61	0	0	0	0	0	0
Total Supply	6493	6083	6493	6543	6193	7681	0	0	7541
MY Exports	0	0	0	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0	0	0	0
Feed Consumption	4200	3800	4200	4300	4000	5050	0	0	5050
FSI Consumption	1600	1800	1600	1600	1700	1700	0	0	1700
Total Consumption	5800	5600	5800	5900	5700	6750	0	0	6750
Ending Stocks	693	483	693	643	493	931	0	0	791
Total Distribution	6493	6083	6493	6543	6193	7681	0	0	7541
Yield	2.36	2.22	2.36	2.32	2.216	2.38	0	0	2.38

<b>PSD Table</b>									
<b>Country</b>	<b>Philippines</b>								
<b>Commodity</b>	<b>Rice, Milled</b>								
	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
<b>Market Year Begin</b>		07/2005	07/2005		07/2006	07/2006		07/2007	07/2007
Area Harvested	4084	4115	4084	4140	0	4175	0	0	4050
Beginning Stocks	4572	3997	4572	5292	0	5292	0	0	5592
Milled Production	9820	9300	9820	10000	0	10050	0	0	9700
Rough Production	15108	14308	15108	15385	0	15462	0	0	14923
Milling Rate (.9999)	6500	6500	6500	6500	0	6500	0	0	6500
MY Imports	1900	1250	1900	1750	0	1800	0	0	1800
TY Imports	1900	1100	1900	1650	0	1900	0	0	1900
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	16292	14547	16292	17042	0	17142	0	0	17092
MY Exports	0	0	0	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0	0	0	0
Total Consumption	11000	10600	11000	11250	0	11550	0	0	11750
Ending Stocks	5292	3947	5292	5792	0	5592	0	0	5342
Total Distribution	16292	14547	16292	17042	0	17142	0	0	17092
Yield (Rough)	3.70	3.48	3.70	3.72	0	3.70	0	0	3.68